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11 February 1986

**South Korea Overhauls Its Trade Negotiation Machinery**

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**Summary**

Last month's reorganization of the International Economic Policy Council (IEPC)--which has played a pivotal role in South Korea's trade negotiations with the United States--is likely to increase the influence of conservative ministries that oppose further market opening. We believe Seoul remains committed to quickly resolving 301-related cases now pending and may even use Kim Ki Hwan--a prominent liberalizer and now demoted head of the IEPC--to complete the negotiations. The reorganization may slow the pace of these talks, however, and could well make resolution of other trade problems more difficult in the long run. In our judgment, the outlook could improve if Deputy Prime Minister Kim Mahn Je--South Korea's top economic policymaker--keeps a strong hand on the rudder and Seoul's small circle of liberalizers can regain some of their influence in the trade arena.

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### Seoul Restructures Trade Negotiating Apparatus

In late January Kim Mahn Je, newly appointed Deputy Prime Minister and head of the Economic Planning Board, announced a reorganization of the International Economic Policy Council--the government body responsible for coordinating and, for the most part, conducting trade negotiations with Washington. The key changes include:

- Eliminating the secretariat status of the IEPC, reducing it to a bureau within the Economic Planning Board.
- Reassigning Kim Ki Hwan from the highly visible post of Director General to that of Ambassador for Special Assignments. Although Dr. Kim remains a vice minister on paper, US Embassy officials and observers in Seoul agree this move is a demotion.
- Delegating responsibility for trade negotiations to the Ministry covering the disputed sector. The IEPC will continue to serve its traditional coordinating role, but [ ] Deputy Prime Minister Kim Mahn Je will [ ] determine the make-up of negotiating teams on a case-by-case basis. [ ]

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### Why the Change in Midstream?

In our view, widespread dissatisfaction with the IEPC's management of economic relations with the United States late last year was a major factor behind the reorganization. The IEPC's reputation had suffered in particular since bilateral talks last July, when a South Korean press barrage accused Seoul's negotiating team of knuckling under to Washington's demands. Large antidumping duties levied against Korean photo albums and the initiation of 301 actions reinforced a popular and bureaucratic view of the IEPC as an incompetent negotiator. With these perceptions as a backdrop, several more factors, in our view, helped build the case for the IEPC reorganization:

- **The Council's failure to meet Seoul's end-of 1985 target for resolving 301 actions.** [ ]  
[ ]
- **Kim Ki Hwan's adversarial relationship with others in the economic policy making community.** As head of the IEPC, Kim Ki Hwan fairly frequently offended the leadership and working levels in the technical ministries, according to the US Embassy. His poor bureaucratic relations--especially with Trade and Industry Minister Kum Jin Ho, an advocate of protected domestic markets--as well as longstanding personal and professional conflicts with Kim Mahn Je, probably contributed to Kim Ki Hwan's demotion.

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- **Intense lobbying by the Ministry of Trade and Industry** to regain the responsibility for trade negotiations previously lost to the IEPC. MTI bureaucrats, who have traditionally aligned themselves with business interests against economic liberalization, bristled at the direction of the 301 process.
- **A feeling that Seoul's economic community needed a fresh image.** Kim Mahn Je may have felt that ministerial infighting and press criticism of the IEPC made a change in the negotiating machinery necessary.
- **Concern over foreign influence.** In remarks to journalists in late January, Deputy Prime Minister Kim said foreign access to the IEPC--particularly by US diplomats--was too easy. All foreign inquiries about trade related matters must now be addressed to the Ministry of Trade and Industry or the Ministry of Finance.

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### Liberalizers Versus Conservatives

Although Kim Mahn Je favors economic liberalization, he appears to have acquiesced at least temporarily to criticism of the IEPC's push for market opening. Kim may calculate that the political costs in any trade fracas would simply be too high, undercutting his effort to forge a consensus on broader policy objectives. He is taking the reins of economic planning during a painful and risky industrial restructuring and the beginning of a challenging five-year plan. In addition, Kim faces the task of guiding an economy that is only now emerging from six quarters of real GNP growth below 6 percent--the minimum gain needed to stem rising unemployment. By revamping the trade negotiation structure, Kim Mahn Je has, in our judgment, shed some heavy political baggage by appearing to have dealt with Kim Ki Hwan and the IEPC--both lightning rods for domestic criticism of economic liberalization.

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From Seoul's perspective, the changes in the trade negotiating structure probably will work to the advantage of economic policymakers--and Kim Mahn Je in particular--as they deal with the broader economic agenda. Kim's move to restructure the IEPC and share among the ministries the risks and rewards of trade negotiations suggests pragmatism and strong bureaucratic skills--giving in to immediate pressure from hardliners on some trade issues to achieve the larger goal of controlling decisionmaking. At the same time, Kim has carried up the ladder with him members of the liberal economic club, which means proponents of market opening are still on the team, although their independence makes them unlikely to sing in harmony on all issues.

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[redacted]

For the time being the conservatives have greater control over the trade agenda, which is likely to raise problems in dealing with the United States. The star of Minister of Trade and Industry Kum Jin Ho in particular seems to be on the rise. Negotiations for intellectual property rights have been handed to MTI, although many aspects of this complex issue would be better handled by either the Ministry of Science and Technology or the Ministry of Culture and Information. MTI may also try to expand its influence on sensitive agricultural issues--highlighted by recent disputes with Washington over imports of beef, logs, and fruits. [redacted]

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[redacted] The IEPC, however, could conduct the actual negotiations with agricultural experts in the background. [redacted]

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We believe that Kim Mahn Je's keen interest in several international economic subjects will keep them beyond Kum's grasp and that they will continue to be handled by the IEPC and the Ministry of Finance. These include attracting, managing, and liberalizing direct foreign investment, which the IEPC will handle, and the insurance 301 case and financial sector liberalization, including internationalization of South Korea's money markets, for which Finance retains responsibility. [redacted]

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#### **Prospects for Trade Negotiations**

In the short run. Overall, the revised structure could pose new challenges for US trade negotiators. Questions about who is in charge following the reorganization of the IEPC already appear to have been a factor contributing to delays in the 301 negotiations. Talks scheduled for late January were canceled because Seoul could not formulate a response it was certain Washington would accept, and the South Koreans have backed away from a meeting proposed for early February. [redacted] top economic officials are now aiming for late February negotiations. [redacted]

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These delays notwithstanding, we expect to see a softening of Seoul's position on 301 cases. Embassy sources suggest that Seoul may again turn to Kim Ki Hwan as chief negotiator in the belief that his experience will speed an agreement. Moreover, an announcement two weeks ago of plans to draft legislation that protects intellectual property rights--including chemicals and pharmaceuticals--suggests flexibility. Seoul has set 1987 as the target for enforcement to begin. [redacted]

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Despite encouraging prospects for forward movement on pending 301 cases, there are several factors that could complicate the finalization of a pact on either insurance or intellectual property rights. We believe that South Korean negotiators will overestimate the value of the concessions they plan to make and will up the ante in return for compromise on their part. According to the US Embassy, in return for flexibility on current 301 cases, Seoul may call for their withdrawal--a toughening of South Korea's position that probably reflects Kum Jin Ho's growing influence. In addition, according to the US Embassy, some in Seoul have already suggested that concessions on insurance and intellectual property rights be used as bargaining chips to get the upper hand in other than 301 disputes--expanded landing rights for South Korea's airline in the United States and the use of a cargo handling facility at Kimpo airport are examples. [redacted]

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In sum, we expect no change in the South Koreans' approach to the negotiations--hanging tough on each point. If, however, Kum Jin Ho has Chun's mandate to make greater concessions than we anticipate in exchange for Washington's dropping current 301 actions, more rapid movement is possible. Policymakers may calculate that compromises by an arch conservative and rival of Kim Ki Hwan--who many felt was giving away the store--might be palatable to business leaders who are resisting change. Even if the business community is persuaded that compromise is necessary, we still expect loud cries of protest from Chun's other domestic critics. Opposition party leaders, students, and labor are likely to continue to exploit the trade issue unless Seoul wins a solid quid pro quo in exchange for protection of intellectual property rights and an open insurance market. [REDACTED]

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The longer run. The reorganized trade regime gives little cause for optimism that bilateral disputes other than the 301s now on the table will be settled quickly. Although we do not believe Seoul has a long-range plan for dealing with other bilateral trade issues, the following indicators may reveal the trends in the negotiating climate over the next year:

- Kim Mahn Je's leadership. While he cannot rule by administrative fiat, Kim has the power to influence the course of future negotiations. His forcefulness and the areas where he chooses to focus will, in general, determine the shape of compromise. If he cannot closely control the bilateral agenda, we expect slow progress on trade negotiations.
- Delegation leaders. The US Embassy reports that the heads of negotiating teams are often able to seize the initiative, fitting the proceedings to their parochial interests. The Ministries of Trade and Industry and of Culture and Information tend to be the most conservative. The Ministry of Science and Technology has no track record, but probably will be pliable on some issues. IEPC and Ministry of Finance officials on the team would be most welcome, but they must increasingly watch their step because of domestic reaction. Under the reorganized trade structure, Kim Mahn Je will reportedly name delegation heads.
- IEPC coordination. Under the new system, the IEPC will maintain its central role as broker between the ministries and provide overall coordination of the negotiations, but its lower status may hamper its ability to carry through. We do not yet know who will lead the IEPC, which will offer a clue to its effectiveness.
- Press reaction. The greater freedom of the press to report on trade matters--as opposed to political topics--makes it an increasingly important bellwether of government and popular positions. A softer press line on insurance and intellectual property rights, for example, has roughly paralleled Seoul's flexibility.
- The fate of Kim Ki Hwan. Although Kim has clearly lost some of his clout, he may continue to play an important role. In fact, by removing Kim, Seoul may be holding him in reserve for future fights. His reemergence will probably face stiff opposition from those now celebrating his demise but, if successful, would signal a renewed commitment to market opening. [REDACTED]

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